

LENOX MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED DECEMBER 31, 2020 AND 2019

# LENOX MUNICIPAL UTILITIES

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LENOX MUNICIPAL UTILITIES  
Officials  
December 31, 2020

<u>Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Jake Trip	Trustee - Chairman	May 1, 2024
Tysen Christensen	Trustee - Vice-Chairman	May 1, 2022
Debra Miller	Trustee - Secretary-Treasurer	May 1, 2026
Wayne Haidsiak	Trustee	May 1, 2026
Kathy Arevalo	Trustee	May 1, 2022
John Borland	General Manager	

# Gronewold, Bell, Kyhnn & Co. P.C.

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CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and each major fund of Lenox Municipal Utilities (a component unit of the City of Lenox, Iowa) which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Lenox Municipal Utilities

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Lenox Municipal Utilities as of December 31, 2020 and 2019 and the changes in its financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 3 through 3d and on 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2021 on our consideration of Lenox Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Lenox Municipal Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Lenox Municipal Utilities' internal control over financial reporting and compliance.

*Gunnar W. Dahl, CPA*

Atlantic, Iowa  
February 18, 2021

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management of Lenox Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the years ended December 31, 2020 and 2019. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2020 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities decreased 3.42%, or \$121,435 from 2019 to 2020.
- Operating expenses of the Utilities' activities increased 1.06%, or \$29,957 from 2019 to 2020.
- The Utilities' net position increased 8.63%, or \$583,600 from December 31, 2019 to December 31, 2020.

### 2019 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' activities increased 8.42%, or \$275,749 from 2018 to 2019.
- Operating expenses of the Utilities' activities increased 1.68%, or \$46,622 from 2018 to 2019.
- The Utilities' net position increased 12.41%, or \$746,063 from December 31, 2018 to December 31, 2019.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The basic financial statements consist of Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. These statements provide information about the activities of the Utilities on a comparative basis, including resources held by the Utilities but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year, the Utilities' proportionate share of the net pension liability and related contributions.

## **REPORTING THE UTILITIES' FINANCIAL ACTIVITIES**

### *The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position*

One of the most important questions asked about the Utilities' finances is "Are the Utilities as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Utilities' resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted), deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Utilities' financial health or financial position. Over time, increases or decreases in the Utilities' net position are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Utilities' consumer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its consumers and local economic conditions, are also important in making this determination.

### *The Statements of Cash Flows*

The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

## FINANCIAL ANALYSIS OF THE UTILITIES

As noted earlier, net position may serve over time as a useful indicator of financial position. The Utilities' net position increased approximately \$584,000 (8.63%) from 2019 to 2020 and increased approximately \$746,000 (12.41%) from 2018 to 2019.

Statement of Net Position			
	2020	2019	2018
Current assets	\$ 1,033,281	\$ 952,117	\$ 848,768
Special purpose funds	3,195,618	2,966,738	2,844,985
Capital assets	4,834,714	5,012,296	4,616,978
Other assets	614,590	830,915	685,790
Total assets	9,678,203	9,762,066	8,996,521
Deferred outflows of resources	107,800	112,800	138,000
Current liabilities	276,901	353,923	306,708
Long-term liabilities	2,078,890	2,693,954	2,767,299
Other liabilities	19,361	23,238	23,326
Total liabilities	2,375,152	3,071,115	3,097,333
Deferred inflows of resources	68,500	45,000	24,500
Net position:			
Net investment in capital assets	2,931,524	2,423,042	2,048,879
Restricted:			
Expendable	150,000	150,000	150,000
Unrestricted	4,260,827	4,185,709	3,813,809
Total net position	\$ 7,342,351	\$ 6,758,751	\$ 6,012,688

Restricted expendable net assets remained constant from 2019 to 2020 and from 2018 to 2019.

Unrestricted net position increased approximately \$75,100 from 2019 to 2020, primarily due to an increase in total net position. Unrestricted net position increased approximately \$372,000 from 2018 to 2019.



The following shows the changes in net position for the Utilities.

Statement of Revenues, Expenses and Changes in Net Position			
	2020	2019	2018
Operating revenues:			
Current use charges	\$ 3,351,296	\$ 3,476,587	\$ 3,207,108
Miscellaneous and rentals	78,550	74,694	68,424
Total operating revenues	3,429,846	3,551,281	3,275,532
Operating expenses:			
Administrative	413,919	412,005	359,459
Sales and use taxes	2,361	2,736	7,759
Payroll and payroll taxes	553,670	527,652	524,042
Office expense	41,586	24,396	27,095
Repairs and maintenance	11,341	9,903	15,072
Plant expense	1,387,399	1,439,989	1,407,046
Distribution expense	123,644	106,661	130,932
Bad debts	8,912	3,617	6,394
Depreciation	304,068	289,984	292,522
Total operating expenses	2,846,900	2,816,943	2,770,321
Operating income	582,946	734,338	505,211
Non-operating revenues (expenses):			
Interest income	37,905	63,256	33,872
Interest expense	( 42,470)	( 56,750)	( 60,463)
Non-operating revenues (expenses),net	( 4,565)	6,506	( 26,591)
Changes in net position before transfers	578,381	740,844	478,620
Transfers from City	5,219	5,219	6,740
Changes in net position	583,600	746,063	485,360
Net position, beginning of year	6,758,751	6,012,688	5,527,328
Net position, end of year	\$ 7,342,351	\$ 6,758,751	\$ 6,012,688

### Operating Income

The first component of the overall change in the Utilities' net position is its operating income, which is the sum of current use charges and miscellaneous and rental revenue reduced by the expenses incurred to perform those services. In each of the past three years, the Utilities has reported an operating income. This is consistent with the Utilities' recent operating history as the Utilities were formed and are operated primarily to serve residents of the City of Lenox and the surrounding area.

The operating income for 2020 decreased \$151,392, or 20.6%, compared to 2019.

Non-operating revenues and expenses consist primarily of interest expense and investment income. Investment income decreased approximately \$25,400 in 2020 as compared to 2019. Interest expense decreased approximately \$14,300, or 25.2% primarily due to paying debt down.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At December 31, 2020, the Utilities had \$4,834,714 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In 2020 the Utilities acquired or constructed capital assets costing approximately \$126,500, financed by funds designated by the Board of Trustees.

At December 31, 2019, the Utilities had \$5,012,296 invested in capital assets, net of accumulated depreciation/amortization, as detailed in Note G to the financial statements. In 2019 the Utilities acquired or constructed capital assets costing approximately \$685,300, financed by funds designated by the Board of Trustees and an intra utility note financing.

### **Long-Term Debt**

At December 31, 2020, the Utilities had outstanding revenue bonds totaling \$1,903,190, as detailed in Notes H-J to the financial statements. The Utilities issued no new debt in 2020.

At December 31, 2019, the Utilities had outstanding revenue bonds and an equipment lease purchase agreement totaling \$2,589,254, as detailed in Notes H-J to the financial statements. During 2019 the Utilities entered into an intra utility note in the Water Fund to finance the water system improvements.

The Utilities' formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Utilities' debt ratings during the past two years.

## **ECONOMIC FACTORS**

Lenox Municipal Utilities continued to improve its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utilities officials. Some of the realities which may potentially become challenges for the Utilities to meet are:

- Natural resource costs will continue to increase.
- Facilities at the Utilities require constant maintenance and upkeep.
- Shortages of qualified employees.

The Utilities anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utilities' ability to react to unknown issues.

## **CONTACTING THE UTILITIES'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our consumers, suppliers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Superintendent, 205 S. Main St., Lenox, Iowa 50851.

LENOX MUNICIPAL UTILITIES  
Statements of Net Position  
December 31, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Capital Assets - net of depreciation	\$ 1,962,349	\$ 1,922,436	\$ 949,929	\$ 4,834,714
Special Purpose Funds:				
Restricted funds - cash	--	150,000	--	150,000
Board designated funds - cash	<u>2,317,177</u>	<u>676,613</u>	<u>51,828</u>	<u>3,045,618</u>
Total special purpose funds	2,317,177	826,613	51,828	3,195,618
Current Assets:				
Cash	457,113	36,353	41,686	535,152
Accounts receivable	176,726	80,016	5,500	262,242
Inventory	151,241	--	--	151,241
Prepaid expenses	36,563	6,982	9,001	52,546
Notes receivable	<u>32,100</u>	<u>--</u>	<u>--</u>	<u>32,100</u>
Total current assets	853,743	123,351	56,187	1,033,281
Other Assets:				
Notes receivable	<u>614,590</u>	<u>--</u>	<u>--</u>	<u>614,590</u>
Total assets	5,747,859	2,872,400	1,057,944	9,678,203
Deferred Outflows of Resources - Pension	<u>48,600</u>	<u>37,700</u>	<u>21,500</u>	<u>107,800</u>
Total assets and deferred outflows of resources	<u>\$ 5,796,459</u>	<u>\$ 2,910,100</u>	<u>\$ 1,079,444</u>	<u>\$ 9,786,003</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	\$ --	\$ 697,000	\$ 1,047,490	\$ 1,744,490
Net Pension Liability	150,500	117,000	66,900	334,400
Current Liabilities:				
Current maturities of long-term debt	--	78,000	80,700	158,700
Accounts payable	53,261	29,301	5,381	87,943
Accrued employee compensation	7,091	7,902	4,324	19,317
Accrued expenses	2,027	4,526	2,032	8,585
Accrued interest	<u>--</u>	<u>1,152</u>	<u>1,204</u>	<u>2,356</u>
Total current liabilities	62,379	120,881	93,641	276,901
Other Liabilities:				
Consumer deposits	<u>19,361</u>	<u>--</u>	<u>--</u>	<u>19,361</u>
Total liabilities	232,240	934,881	1,208,031	2,375,152
Deferred Inflows of Resources - Pension	30,800	24,000	13,700	68,500
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,962,349	1,147,436	( 178,261)	2,931,524
Restricted - expendable	--	150,000	--	150,000
Unrestricted	<u>3,571,070</u>	<u>653,783</u>	<u>35,974</u>	<u>4,260,827</u>
Total net position (deficit)	<u>5,533,419</u>	<u>1,951,219</u>	<u>( 142,287)</u>	<u>7,342,351</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,796,459</u>	<u>\$ 2,910,100</u>	<u>\$ 1,079,444</u>	<u>\$ 9,786,003</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES  
Statements of Net Position  
December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Capital Assets - net of depreciation	\$ 2,081,557	\$ 1,935,597	\$ 995,142	\$ 5,012,296
Special Purpose Funds:				
Restricted funds - cash	--	150,000	--	150,000
Board designated funds - cash	<u>1,976,172</u>	<u>806,161</u>	<u>34,405</u>	<u>2,816,738</u>
Total special purpose funds	1,976,172	956,161	34,405	2,966,738
Current Assets:				
Cash	354,709	95,001	34,960	484,670
Accounts receivable	136,191	79,501	10,718	226,410
Inventory	140,227	--	--	140,227
Prepaid expenses	23,219	6,307	8,484	38,010
Notes receivable	<u>62,800</u>	<u>--</u>	<u>--</u>	<u>62,800</u>
Total current assets	717,146	180,809	54,162	952,117
Other Assets:				
Notes receivable	<u>830,915</u>	<u>--</u>	<u>--</u>	<u>830,915</u>
Total assets	5,605,790	3,072,567	1,083,709	9,762,066
Deferred Outflows of Resources - Pension	<u>50,900</u>	<u>39,500</u>	<u>22,400</u>	<u>112,800</u>
Total assets and deferred outflows of resources	<u>\$ 5,656,690</u>	<u>\$ 3,112,067</u>	<u>\$ 1,106,109</u>	<u>\$ 9,874,866</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

Long-Term Debt, less current maturities	\$ 272,439	\$ 952,525	\$ 1,128,190	\$ 2,353,154
Net Pension Liability	153,300	119,200	68,300	340,800
Current Liabilities:				
Current maturities of long-term debt	44,000	113,400	78,700	236,100
Accounts payable	51,202	33,067	3,597	87,866
Accrued employee compensation	6,924	9,987	3,640	20,551
Accrued expenses	2,274	1,825	2,172	6,271
Accrued interest	<u>--</u>	<u>1,265</u>	<u>1,870</u>	<u>3,135</u>
Total current liabilities	104,400	159,544	89,979	353,923
Other Liabilities:				
Consumer deposits	<u>23,238</u>	<u>--</u>	<u>--</u>	<u>23,238</u>
Total liabilities	553,377	1,231,269	1,286,469	3,071,115
Deferred Inflows of Resources - Pension	20,200	15,800	9,000	45,000
Net Position (Deficit):				
Invested in capital assets, net of related debt	1,765,118	869,672	( 211,748)	2,423,042
Restricted - expendable	--	150,000	--	150,000
Unrestricted	<u>3,317,995</u>	<u>845,326</u>	<u>22,388</u>	<u>4,185,709</u>
Total net position (deficit)	<u>5,083,113</u>	<u>1,864,998</u>	<u>( 189,360)</u>	<u>6,758,751</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,656,690</u>	<u>\$ 3,112,067</u>	<u>\$ 1,106,109</u>	<u>\$ 9,874,866</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended December 31, 2020

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Operating Revenues:				
Current use charges	\$ 1,711,789	\$ 956,105	\$ 683,402	\$ 3,351,296
Miscellaneous and rentals	<u>63,837</u>	<u>14,713</u>	<u>--</u>	<u>78,550</u>
Total operating revenues	<u>1,775,626</u>	<u>970,818</u>	<u>683,402</u>	<u>3,429,846</u>
Operating Expenses:				
Administrative	152,994	88,984	171,941	413,919
Sales and use taxes	2,361	--	--	2,361
Payroll and payroll taxes	222,518	186,642	144,510	553,670
Office expense	17,923	14,556	9,107	41,586
Repairs and maintenance	6,844	3,927	570	11,341
Plant expense	715,248	443,034	229,117	1,387,399
Distribution expense	101,655	21,989	--	123,644
Bad debts	2,711	1,393	4,808	8,912
Depreciation	<u>130,274</u>	<u>120,437</u>	<u>53,357</u>	<u>304,068</u>
Total operating expenses	<u>1,352,528</u>	<u>880,962</u>	<u>613,410</u>	<u>2,846,900</u>
Operating Income	423,098	89,856	69,992	582,946
Non-Operating Revenues (Expenses):				
Interest income	30,152	7,314	439	37,905
Interest expense	<u>( 2,944)</u>	<u>( 16,168)</u>	<u>( 23,358)</u>	<u>( 42,470)</u>
Non-Operating Revenues (Expenses), net	<u>27,208</u>	<u>( 8,854)</u>	<u>( 22,919)</u>	<u>( 4,565)</u>
Changes in Net Position Before Transfers	450,306	81,002	47,073	578,381
Transfers from City	<u>--</u>	<u>5,219</u>	<u>--</u>	<u>5,219</u>
Changes in Net Position	450,306	86,221	47,073	583,600
Net Position, Beginning of Year	<u>5,083,113</u>	<u>1,864,998</u>	<u>( 189,360)</u>	<u>6,758,751</u>
Net Position, End of Year	<u>\$ 5,533,419</u>	<u>\$ 1,951,219</u>	<u>\$ ( 142,287)</u>	<u>\$ 7,342,351</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended December 31, 2019

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Operating Revenues:				
Current use charges	\$ 1,801,333	\$ 984,117	\$ 691,137	\$ 3,476,587
Miscellaneous and rentals	<u>58,783</u>	<u>15,911</u>	<u>--</u>	<u>74,694</u>
Total operating revenues	1,860,116	1,000,028	691,137	3,551,281
Operating Expenses:				
Administrative	144,250	94,345	173,410	412,005
Sales and use taxes	2,736	--	--	2,736
Payroll and payroll taxes	184,911	218,058	124,683	527,652
Office expense	9,898	9,830	4,668	24,396
Repairs and maintenance	5,143	3,919	841	9,903
Plant expense	750,181	460,687	229,121	1,439,989
Distribution expense	84,297	22,364	--	106,661
Bad debts	1,471	498	1,648	3,617
Depreciation	<u>131,057</u>	<u>109,478</u>	<u>49,449</u>	<u>289,984</u>
Total operating expenses	1,313,944	919,179	583,820	2,816,943
Operating Income	546,172	80,849	107,317	734,338
Non-Operating Revenues (Expenses):				
Interest income	42,424	19,850	982	63,256
Interest expense	<u>( 10,064)</u>	<u>( 16,369)</u>	<u>( 30,317)</u>	<u>( 56,750)</u>
Non-Operating Revenues (Expenses), net	32,360	3,481	( 29,335)	6,506
Changes in Net Position Before Transfers	578,532	84,330	77,982	740,844
Transfers from City	<u>--</u>	<u>5,219</u>	<u>--</u>	<u>5,219</u>
Changes in Net Position	578,532	89,549	77,982	746,063
Net Position, Beginning of Year	<u>4,504,581</u>	<u>1,775,449</u>	<u>( 267,342)</u>	<u>6,012,688</u>
Net Position, End of Year	<u>\$ 5,083,113</u>	<u>\$ 1,864,998</u>	<u>\$( 189,360)</u>	<u>\$ 6,758,751</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES  
Statements of Cash Flows  
Year ended December 31, 2020

	Electric	Water	Communication	Total
Cash flows from operating activities:				
Cash received from consumers	\$ 1,668,543	\$ 954,197	\$ 683,812	\$ 3,306,552
Cash paid to suppliers	( 1,053,524)	( 600,268)	( 430,422)	( 2,084,214)
Cash paid to employees	( 178,298)	( 154,889)	( 118,812)	( 451,999)
Other operating revenue	63,837	14,713	--	78,550
Net cash provided by operating activities	500,558	213,753	134,578	848,889
Cash flows from noncapital financing activities:				
Transfers from City	--	5,219	--	5,219
Consumer deposits, net	( 3,877)	--	--	( 3,877)
Net cash provided by (used in) noncapital financing activities	( 3,877)	5,219	--	1,342
Cash flows from capital and related financing activities:				
Capital asset purchases	( 11,066)	( 107,276)	( 8,144)	( 126,486)
Principal payments	( 316,439)	( 290,925)	( 78,700)	( 686,064)
Interest paid	( 2,944)	( 16,281)	( 24,024)	( 43,249)
Net cash used in capital and related financing activities	( 330,449)	( 414,482)	( 110,868)	( 855,799)
Cash flows from investing activities:				
Note payments received from Communication and Water	247,025	--	--	247,025
Income from investments	30,152	7,314	439	37,905
Net cash provided by investing activities	277,177	7,314	439	284,930
Net increase (decrease) in cash	443,409	( 188,196)	24,149	279,362
Cash at beginning of year	2,330,881	1,051,162	69,365	3,451,408
Cash at end of year	<u>\$ 2,774,290</u>	<u>\$ 862,966</u>	<u>\$ 93,514</u>	<u>\$ 3,730,770</u>
Reconciliation of cash to the balance sheets:				
Cash in current assets	\$ 457,113	\$ 36,353	\$ 41,686	\$ 535,152
Cash in special purpose funds	2,317,177	826,613	51,828	3,195,618
Total cash	<u>\$ 2,774,290</u>	<u>\$ 862,966</u>	<u>\$ 93,514</u>	<u>\$ 3,730,770</u>

(continued next page)

LENOX MUNICIPAL UTILITIES  
Statements of Cash Flows - Continued  
Year ended December 31, 2020

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	\$ 423,098	\$ 89,856	\$ 69,992	\$ 582,946
Adjustments to reconcile income from operations to net cash provided by operating activities				
Depreciation	130,274	120,437	53,357	304,068
Bad debts	2,711	1,393	4,808	8,912
Change in assets and liabilities				
Accounts receivable	( 43,246)	( 1,908)	410	( 44,744)
Inventory	( 11,014)	--	--	( 11,014)
Prepaid expenses	( 13,344)	( 675)	( 517)	( 14,536)
Deferred outflows of resources	2,300	1,800	900	5,000
Net pension liability	( 2,800)	( 2,200)	( 1,400)	( 6,400)
Accounts payable, trade	2,059	( 3,766)	1,784	77
Accrued expenses	( 247)	2,701	( 140)	2,314
Accrued employee compensation	167	( 2,085)	684	( 1,234)
Deferred inflows of resources	10,600	8,200	4,700	23,500
Total adjustments	<u>77,460</u>	<u>123,897</u>	<u>64,586</u>	<u>265,943</u>
Net cash provided by operating activities	<u>\$ 500,558</u>	<u>\$ 213,753</u>	<u>\$ 134,578</u>	<u>\$ 848,889</u>

The accompanying notes are an integral part of these statements.



LENOX MUNICIPAL UTILITIES  
Statements of Cash Flows  
Year ended December 31, 2019

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from consumers	\$ 1,797,301	\$ 980,130	\$ 688,746	\$ 3,466,177
Cash paid to suppliers	( 1,053,554)	( 624,092)	( 430,431)	( 2,108,077)
Cash paid to employees	( 156,659)	( 185,155)	( 105,211)	( 447,025)
Other operating revenue	<u>58,783</u>	<u>15,911</u>	<u>--</u>	<u>74,694</u>
Net cash provided by operating activities	<u>645,871</u>	<u>186,794</u>	<u>153,104</u>	<u>985,769</u>
Cash flows from noncapital financing activities:				
Transfers from City	--	5,219	--	5,219
Consumer deposits, net	( 88)	--	--	( 88)
Net cash provided by (used in) noncapital financing activities	( 88)	5,219	--	5,131
Cash flows from capital and related financing activities:				
Capital asset purchases	( 2,152)	( 613,143)	( 70,007)	( 685,302)
Note proceeds	--	225,263	--	225,263
Principal payments	( 42,870)	( 84,338)	( 76,900)	( 204,108)
Interest paid	( 10,064)	( 16,479)	( 30,476)	( 57,019)
Net cash used in capital and related financing activities	( 55,086)	( 488,697)	( 177,383)	( 721,166)
Cash flows from investing activities:				
Note advance to Water	( 225,263)	--	--	( 225,263)
Note payments received from Communication and Water	42,438	--	--	42,438
Income from investments	<u>42,424</u>	<u>19,850</u>	<u>982</u>	<u>63,256</u>
Net cash provided by (used in) investing activities	( 140,401)	19,850	982	( 119,569)
Net increase (decrease) in cash	450,296	( 276,834)	( 23,297)	150,165
Cash at beginning of year	<u>1,880,585</u>	<u>1,327,996</u>	<u>92,662</u>	<u>3,301,243</u>
Cash at end of year	<u>\$ 2,330,881</u>	<u>\$ 1,051,162</u>	<u>\$ 69,365</u>	<u>\$ 3,451,408</u>
Reconciliation of cash to the balance sheets:				
Cash in current assets	\$ 354,709	\$ 95,001	\$ 34,960	\$ 484,670
Cash in special purpose funds	<u>1,976,172</u>	<u>956,161</u>	<u>34,405</u>	<u>2,966,738</u>
Total cash	<u>\$ 2,330,881</u>	<u>\$ 1,051,162</u>	<u>\$ 69,365</u>	<u>\$ 3,451,408</u>

(continued next page)

LENOX MUNICIPAL UTILITIES  
Statements of Cash Flows - Continued  
Year ended December 31, 2019

	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>Total</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	\$ 546,172	\$ 80,849	\$ 107,317	\$ 734,338
Adjustments to reconcile income from operations to net cash provided by operating activities				
Depreciation	131,057	109,478	49,449	289,984
Bad debts	1,471	498	1,648	3,617
Change in assets and liabilities				
Accounts receivable	( 4,032)	( 3,987)	( 2,391)	( 10,410)
Inventory	( 14,538)	--	--	( 14,538)
Prepaid expenses	( 5,962)	( 3,907)	( 6,037)	( 15,906)
Deferred outflows of resources	11,300	8,800	5,100	25,200
Net pension liability	( 20,200)	( 15,800)	( 9,000)	( 45,000)
Accounts payable, trade	( 8,411)	3,389	2,581	( 2,441)
Accrued expenses	( 508)	( 14)	232	( 290)
Accrued employee compensation	322	288	105	715
Deferred inflows of resources	9,200	7,200	4,100	20,500
Total adjustments	<u>99,699</u>	<u>105,945</u>	<u>45,787</u>	<u>251,431</u>
Net cash provided by operating activities	<u>\$ 645,871</u>	<u>\$ 186,794</u>	<u>\$ 153,104</u>	<u>\$ 985,769</u>

The accompanying notes are an integral part of these statements.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Lenox Municipal Utilities provides electricity, water and communication services to the City of Lenox and the surrounding area. The Utilities are operated as a separate entity under the direction of a Board of Trustees. The members of the Board are appointed by the Mayor and approved by the City Council.

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however, those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

The Utilities report in accordance with Governmental Accounting Standards and Uniform Systems of Accounts prescribed by the Federal Energy Regulatory Commission and the National Association of Regulatory Utility Commissioners.

2. Basis of Presentation

The Statement of Net Position displays the Utilities' assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Utilities.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Utilities' policy to use restricted net position first.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Capital Assets and Depreciation

The straight-line method is used for computing depreciation with lives on machinery and equipment ranging from five to thirty-five years and lives on buildings of fifty years. Cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties in efficient operating condition are charged to expense. Utility plant accounts are charged with the cost of improvements and replacements of the plant.

6. Accounts Receivable and Revenue Recognition

Billings for electric, water and communication revenues are rendered monthly. The Utilities do not record unbilled revenues representing estimated consumption for the period between the last billing date and the end of the fiscal year.

At December 31, 2020 and 2019, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

7. Inventory Valuation

Inventories (materials, supplies and fuel) are valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials, supplies and fuel.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have maturities at the time they are purchased of one year or less. These investments are carried at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Purpose of Special Funds

The Utilities have set aside certain assets for specific purposes. The board designated funds represent money designated by the Board of Trustees to be used in the payment of certain potential costs as identified in Note D. The restricted funds, as discussed in Note D, are the result of requirements established in bond issue documents. Use of restricted or unrestricted resources for individual projects is determined by the Utility Board of Trustees based on the facts regarding each specific situation.

10. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position applicable to future periods which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Utilities after the measurement date but before the end of the Utilities' reporting period.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Compensated Absences

Utility employees earn vacation hours at varying rates depending on years of service. Vacation time accumulates to a maximum of 160 hours. Any excess over 160 hours is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation.

13. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to future period(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

14. Property Taxes

According to Iowa law, the Electric Utility is required to pay property taxes on transmission lines and related Utility property outside the Lenox city limits. The property taxes are recorded as of the date they are paid.

15. Cash Equivalents

For purposes of the statement of cash flows, the Lenox Municipal Utilities considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - TRANSACTIONS WITH CITY OF LENOX, IOWA

The Utilities act as the billing and collection agent for the City in the collection of sewer fees from the residents of Lenox. This service is provided for a minimal charge to the City.

The Utilities provide electric, water and communication services to the City of Lenox without charge.

Following is a summary of activity between the Utilities and City during the year:

<u>Water</u>	<u>2020</u>	<u>2019</u>
Sewer Fees Collected for City	<u>\$ 363,594</u>	<u>\$ 371,344</u>
Charge to City for Sewer Billing Service	<u>\$ 5,219</u>	<u>\$ 5,219</u>

There is also an operating agreement with the City of Lenox that states the City shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine and reimburse the Utilities for operating expenses of the wind turbine in excess of revenues generated. If revenues of the wind turbine are greater than its operating expenses, the Utilities is to pay the City this excess revenue. No settlement has been made between the City and the Utilities for 2019 and 2018. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE C - TRANSACTIONS BETWEEN ELECTRIC, WATER, AND COMMUNICATION  
DEPARTMENTS

Certain administrative costs are split between the Electric, Water and Communication Departments based on a formula applied consistently throughout the years. Other costs and all revenues are separately identified and accounted for within each Department.

Following is information about interdepartment transactions and amounts due between the Electric, Water and Communication Departments at December 31:

	<u>2020</u>	<u>2019</u>
Interest income (Electric) and expense (Communication) during the year	\$ <u>6,641</u>	\$ <u>6,994</u>
Note received (Electric) and paid (Communication) during the year	\$ <u>32,100</u>	\$ <u>32,100</u>
Interest income (Electric) and expense (Water) during the year	\$ <u>1,635</u>	\$ <u>939</u>
Note received (Water) and paid (Electric) during the year	\$ <u>--</u>	\$ <u>225,263</u>
Note received (Electric) and paid (Water) during the year	\$ <u>214,925</u>	\$ <u>10,338</u>
Interest bearing note due to Electric from:		
Communication Department	\$ 646,690	\$ 678,790
Water Department	--	214,925
Less current portion	<u>32,100</u>	<u>62,800</u>
	<u>\$ 614,590</u>	<u>\$ 830,915</u>

See Notes I and J for details of the interest bearing note due to Electric from Communication and interest bearing note due to Electric from Water.

NOTE D - SPECIAL PURPOSE FUNDS

Restricted and board designated funds are available for the following purposes:

Electric Fund

	<u>2020</u>	<u>2019</u>
Board designated for:		
Facility repairs and capital expenditures	\$ <u>2,317,177</u>	\$ <u>1,976,172</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE D - SPECIAL PURPOSE FUNDS - Continued

Water Fund

	<u>2020</u>	<u>2019</u>
Restricted by debt resolution for payment of principal and interest:		
Sinking fund	\$ 75,000	\$ 75,000
Reserve fund	<u>75,000</u>	<u>75,000</u>
Total restricted funds	<u>\$ 150,000</u>	<u>\$ 150,000</u>
Board designated for:		
Facility repairs and capital expenditures	<u>\$ 676,613</u>	<u>\$ 806,161</u>

Communication Fund

Board designated for:		
Facility repairs and capital expenditures	<u>\$ 51,828</u>	<u>\$ 34,405</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Utilities' deposits at December 31, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of restricted and designated assets is as follows:

Electric Fund

	<u>2020</u>	<u>2019</u>
Board designated funds:		
Cash and cash equivalents	<u>\$ 2,317,177</u>	<u>\$ 1,976,172</u>



LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Water Fund

	<u>2020</u>	<u>2019</u>
Restricted funds:		
Cash and cash equivalents	<u>\$ 150,000</u>	<u>\$ 150,000</u>
Board designated funds:		
Cash and cash equivalents	<u>\$ 676,613</u>	<u>\$ 806,161</u>

Communication Fund

Board designated funds:		
Cash and cash equivalents	<u>\$ 51,828</u>	<u>\$ 34,405</u>

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utilities.

NOTE F - FAIR VALUE MEASUREMENTS

The electric fund's notes receivable from the communication and water funds are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Utilities uses appropriate valuation techniques based on the available inputs to measure the fair value of its notes receivable. When available, the Utilities measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Utilities, therefore, Level 3 inputs were used to value its investments at December 31, 2020 and 2019.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE F - FAIR VALUE MEASUREMENTS - Continued

*Level 3 Fair Value Measurements*

The electric fund's notes receivable are not actively traded and significant other observable inputs are not available. Thus, the fair value of the notes receivable are based on contract value.

The following tables set forth, by level within the fair value hierarchy, the Utilities' investments at fair value as of December 31, 2020 and 2019:

		Fair Value Measurements at Reporting Date Using: <u>Contract</u> <u>Value</u> <u>(Level 3)</u>
<u>December 31, 2020</u>	<u>Fair Value</u>	
Notes receivable	\$ 646,690	\$ 646,690
<u>December 31, 2019</u>		
Notes receivable	\$ 893,715	\$ 893,715

The following table reconciles the beginning and ending balances of fair value measurement for the Utilities' Level 3 asset using unobservable inputs for the years ended December 31, 2020 and 2019:

<u>December 31, 2020</u>		
Beginning balance	\$ 893,715	
Collections on notes receivable	( 247,025)	
Ending balance	<u>\$ 646,690</u>	
<u>December 31, 2019</u>		
Beginning balance	\$ 710,890	
Advance on note receivable	225,263	
Collections on notes receivable	( 42,438)	
Ending balance	<u>\$ 893,715</u>	

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended December 31, 2020 and 2019 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2020</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 5,038,702	\$ 11,066	\$ --	\$ 5,049,768
Depreciation	<u>( 2,961,145)</u>	<u>( 130,274)</u>	<u>--</u>	<u>( 3,091,419)</u>
Depreciable Capital Assets, net	<u>\$ 2,077,557</u>	<u>\$( 119,208)</u>	<u>\$ --</u>	<u>\$ 1,958,349</u>
Non-Depreciable Capital Assets - Land	<u>\$ 4,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,000</u>
Total Capital Assets, net	<u>\$ 2,081,557</u>	<u>\$( 119,208)</u>	<u>\$ --</u>	<u>\$ 1,962,349</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
<u>Electric Fund</u>				
Plant and Equipment	\$ 5,036,550	\$ 2,152	\$ --	\$ 5,038,702
Depreciation	<u>( 2,830,088)</u>	<u>( 131,057)</u>	<u>--</u>	<u>( 2,961,145)</u>
Depreciable Capital Assets, net	<u>\$ 2,206,462</u>	<u>\$( 128,905)</u>	<u>\$ --</u>	<u>\$ 2,077,557</u>
Non-Depreciable Capital Assets - Land	<u>\$ 4,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,000</u>
Total Capital Assets, net	<u>\$ 2,210,462</u>	<u>\$( 128,905)</u>	<u>\$ --</u>	<u>\$ 2,081,557</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE G - CAPITAL ASSETS - Continued

	Balance 2019	Additions	Disposals	Balance 2020
<u>Water Fund</u>				
Plant and Equipment	\$ 3,465,717	\$ 742,777	\$ --	\$ 4,208,494
Depreciation	( 2,214,371)	( 120,437)	--	( 2,334,808)
Depreciable Capital Assets, net	<u>\$ 1,251,346</u>	<u>\$ 622,340</u>	<u>\$ --</u>	<u>\$ 1,873,686</u>
Construction in Progress	\$ 648,251	\$ 107,276	\$ 742,777	\$ 12,750
Land	<u>36,000</u>	<u>--</u>	<u>--</u>	<u>36,000</u>
Non-Depreciable Capital Assets	<u>\$ 684,251</u>	<u>\$ 107,276</u>	<u>\$ 742,777</u>	<u>\$ 48,750</u>
Total Capital Assets, net	<u>\$ 1,935,597</u>	<u>\$ 729,616</u>	<u>\$ 742,777</u>	<u>\$ 1,922,436</u>
	Balance 2018	Additions	Disposals	Balance 2019
<u>Water Fund</u>				
Plant and Equipment	\$ 3,466,065	\$ 2,152	\$ 2,500	\$ 3,465,717
Depreciation	( 2,107,393)	( 109,478)	( 2,500)	( 2,214,371)
Depreciable Capital Assets, net	<u>\$ 1,358,672</u>	<u>\$ ( 107,326)</u>	<u>\$ --</u>	<u>\$ 1,251,346</u>
Construction in Progress	\$ 37,260	\$ 610,991	\$ --	\$ 648,251
Land	<u>36,000</u>	<u>--</u>	<u>--</u>	<u>36,000</u>
Non-Depreciable Capital Assets	<u>\$ 73,260</u>	<u>\$ 610,991</u>	<u>\$ --</u>	<u>\$ 684,251</u>
Total Capital Assets, net	<u>\$ 1,431,932</u>	<u>\$ 503,665</u>	<u>\$ --</u>	<u>\$ 1,935,597</u>
	Balance 2019	Additions	Disposals	Balance 2020
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,467,312	\$ 78,151	\$ --	\$ 1,545,463
Depreciation	( 542,177)	( 53,357)	--	( 595,534)
Depreciable Capital Assets, net	<u>\$ 925,135</u>	<u>\$ 24,794</u>	<u>\$ --</u>	<u>\$ 949,929</u>
Construction in Progress	\$ 70,007	\$ 8,144	\$ 78,151	\$ --
Non-Depreciable Capital Assets	<u>\$ 70,007</u>	<u>\$ 8,144</u>	<u>\$ 78,151</u>	<u>\$ --</u>
Total Capital Assets, net	<u>\$ 995,142</u>	<u>\$ 32,938</u>	<u>\$ 78,151</u>	<u>\$ 949,929</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE G - CAPITAL ASSETS - Continued

	Balance 2018	Additions	Disposals	Balance 2019
<u>Communication Fund</u>				
Plant and Equipment	\$ 1,467,312	\$ --	\$ --	\$ 1,467,312
Depreciation	( 492,728)	( 49,449)	--	( 542,177)
Depreciable Capital Assets, net	<u>\$ 974,584</u>	<u>\$ ( 49,449)</u>	<u>\$ --</u>	<u>\$ 925,135</u>
Construction in Progress	\$ --	\$ 70,007	\$ --	\$ 70,007
Non-Depreciable Capital Assets	<u>\$ --</u>	<u>\$ 70,007</u>	<u>\$ --</u>	<u>\$ 70,007</u>
Total Capital Assets, net	<u>\$ 974,584</u>	<u>\$ 20,558</u>	<u>\$ --</u>	<u>\$ 995,142</u>

NOTE H - ELECTRIC FUND NON-CURRENT LIABILITIES

A schedule of changes in Electric Fund non-current liabilities for the years ended December 31, 2020 and 2019 follows:

<u>Electric Fund</u>	Balance 2019	Additions	Reductions	Balance 2020
CAT	\$ 316,439	\$ --	\$ 316,439	\$ --
Less current portion	( 44,000)	--	( 44,000)	--
Consumer Deposits, net	23,238	--	3,877	19,361
Net Pension Liability	<u>153,300</u>	<u>--</u>	<u>2,800</u>	<u>150,500</u>
Total Non-Current Liabilities	<u>\$ 448,977</u>	<u>\$ --</u>	<u>\$ 279,116</u>	<u>\$ 169,861</u>

  

<u>Electric Fund</u>	Balance 2018	Additions	Reductions	Balance 2019
CAT	\$ 359,309	\$ --	\$ 42,870	\$ 316,439
Less current portion	( 42,700)	( 1,300)	--	( 44,000)
Consumer Deposits, net	23,326	--	88	23,238
Net Pension Liability	<u>173,500</u>	<u>--</u>	<u>20,200</u>	<u>153,300</u>
Total Non-Current Liabilities	<u>\$ 513,435</u>	<u>\$ ( 1,300)</u>	<u>\$ 63,158</u>	<u>\$ 448,977</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE H - ELECTRIC FUND NON-CURRENT LIABILITIES - Continued

Electric Lease Agreement, 2016

On August 4, 2016, Lenox Municipal Utilities entered into a lease-purchase agreement with CAT Financial for the amount of \$457,262 with interest at the rate of 2.98 percent for the purchase of an electric generator. Interest on the lease was payable monthly. Principal payments on the lease commenced on September 4, 2016 and were due monthly thereafter until paid in full. The lease-purchase agreement was paid off early in July, 2020. Debt service payments were payable solely from the net revenues of the electric utility.

NOTE I - WATER FUND NON-CURRENT LIABILITIES

A schedule of changes in Water Fund non-current liabilities for the years ended December 31, 2020 and 2019 follows:

<u>Water Fund</u>	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>
2006 Revenue Bonds	\$ 496,000	\$ --	\$ 56,000	\$ 440,000
2014 Revenue Bonds	355,000	--	20,000	335,000
Note Payable Electric Department	214,925	--	214,925	--
Less Current Portion	( 113,400)	--	( 35,400)	( 78,000)
Net Pension Liability	<u>119,200</u>	<u>--</u>	<u>2,200</u>	<u>117,000</u>
Long-Term Debt, net	<u>\$ 1,071,725</u>	<u>\$ --</u>	<u>\$ 257,725</u>	<u>\$ 814,000</u>
 <u>Water Fund</u>	 <u>Balance 2018</u>	 <u>Additions</u>	 <u>Reductions</u>	 <u>Balance 2019</u>
2006 Revenue Bonds	\$ 550,000	\$ --	\$ 54,000	\$ 496,000
2014 Revenue Bonds	375,000	--	20,000	355,000
Note Payable Electric Department	--	225,263	10,338	214,925
Less Current Portion	( 74,000)	( 39,400)	--	( 113,400)
Net Pension Liability	<u>135,000</u>	<u>--</u>	<u>15,800</u>	<u>119,200</u>
Long-Term Debt, net	<u>\$ 986,000</u>	<u>\$ 185,863</u>	<u>\$ 100,138</u>	<u>\$ 1,071,725</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE I - WATER FUND NON-CURRENT LIABILITIES - Continued

Water Revenue Bonds, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of \$1,150,000 with interest at the rate of 1.75 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter maturing on June 1, 2027. Debt service payments are payable solely from the net revenues of the water utility.

Water Revenue Bonds, Series 2014

On July, 11, 2014, Lenox Municipal Utilities issued water revenue bonds in the amount of \$452,000 with interest at the rate of 1.75 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2015 and are due annually thereafter maturing on June 1, 2034. Debt service payments are payable solely from the net revenues of the water utility.

Water Note Payable to Electric Department

The note payable to the Electric Fund was issued on July 11, 2019 in the amount of \$225,263 for the purpose of partially financing 2019 water system improvements. Interest on the note was payable monthly at an interest rate of the interest rate prescribed for the savings account held at a local bank. The water fund began making monthly payments to the electric fund during 2019. The note was paid off during 2020.

The annual debt service on the bonds is expected to require approximately 44% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$307,200 and \$219,000, respectively.

The resolutions of the Board of Trustees authorizing the issuance of the 2006 water revenue bonds specify the creation and maintenance of a sinking fund and a debt service reserve fund. Funding requirements have been fulfilled with the only remaining requirement being monthly accumulation of principal and interest for the next due date.

Principal and interest payments required on Water Fund long-term debt during each of the five years ending December 31, 2021 through 2025 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 78,000	\$ 18,024	\$ 96,024
2022	80,000	15,916	95,916
2023	83,000	13,740	96,740
2024	85,000	11,495	96,495
2025	88,000	9,182	97,182
2026 - 2030	256,000	18,634	274,634
2031 - 2034	105,000	3,737	108,737
	<u>\$ 775,000</u>	<u>\$ 90,728</u>	<u>\$ 865,728</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES

A schedule of changes in Communication Fund non-current liabilities for the years ended December 31, 2020 and 2019 follows:

Communication Fund

	Balance 2019	Additions	Reductions	Balance 2020
2014 Revenue Notes	\$ 528,100	\$ --	\$ 46,600	\$ 481,500
Note Payable Electric				
Department	678,790	--	32,100	646,690
Less Current Portion	( 78,700)	( 2,000)	--	( 80,700)
Net Pension Liability	68,300	--	1,400	66,900
Long-Term Debt, Net	<u>\$ 1,196,490</u>	<u>\$( 2,000)</u>	<u>\$ 80,100</u>	<u>\$ 1,114,390</u>

Communication Fund

	Balance 2018	Additions	Reductions	Balance 2019
2014 Revenue Notes	\$ 572,900	\$ --	\$ 44,800	\$ 528,100
Note Payable Electric				
Department	710,890	--	32,100	678,790
Less Current Portion	( 69,900)	( 8,800)	--	( 78,700)
Net Pension Liability	77,300	--	9,000	68,300
Long-Term Debt, Net	<u>\$ 1,291,190</u>	<u>\$( 8,800)</u>	<u>\$ 85,900</u>	<u>\$ 1,196,490</u>

Communication Revenue Notes, Series 2014

Lenox Municipal Utilities issued communications Revenue Refunding Note, Series 2014 dated May 1, 2014 in the amount of \$750,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest and principal is payable monthly. The note bears interest at the rate of 3.0% and is payable to a local bank. Debt service payments are payable solely from the net revenues of the Communication System. The notes mature May 1, 2029.

Communication Note Payable to Electric Department

The note payable to the Electric Fund was issued on May 1, 2014 in the amount of \$790,000 for the purpose of partially refinancing the 2011 Revenue Loan Agreement Anticipation Refunding Project Notes, Series 2011. Interest on the note is payable semi-annually on May 1 and November 1 of each year the notes are outstanding at an interest rate of 1%. The communication fund began making monthly payments to the electric fund during 2014; however, principal payments on the notes were not scheduled to commence until May 1, 2015 and are due annually thereafter until paid in full. The notes mature December 1, 2035.

The annual debt service on the notes is expected to require approximately 80 percent of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$102,700 and \$128,600, respectively.



LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE J - COMMUNICATION FUND NON-CURRENT LIABILITIES - Continued

Principal and interest payments required on Communication Fund long-term debt during each of the five years ending December 31, 2021 through 2025 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 89,615	\$ 20,198	\$ 109,813
2022	92,227	18,299	110,526
2023	94,843	16,329	111,172
2024	97,463	14,287	111,750
2025	100,288	12,172	112,460
2026-2030	436,259	28,813	465,072
2031-2035	<u>217,495</u>	<u>5,927</u>	<u>223,422</u>
	<u>\$ 1,128,190</u>	<u>\$ 116,025</u>	<u>\$ 1,244,215</u>

NOTE K - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utilities contributed 9.44% of covered payroll for a total rate of 15.73%.

The Utilities' contributions to IPERS for the year ended December 31, 2020 and 2019 totaled \$42,300 and \$42,000 respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2020 and 2019, the Utilities reported a liability of \$334,400 and \$340,800 respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, which is an estimate as of December 31, 2020 and 2019 respectively, and the total pension liability used to calculate the net pension liability was determined by an estimate of an actuarial valuation. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utilities' proportion was 0.005775%, which was an increase of 0.000391% from its proportion measured as of June 30, 2018.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

For the years ended December 31, 2020 and 2019, the Utilities' recognized pension expense of \$64,383 and \$42,706 respectively. The Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020			
	Electric		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 400	\$ 5,400	\$ 300	\$ 4,200
Changes of assumptions	16,100	--	12,500	--
Net difference between projected and actual earnings on IPERS investments	--	8,500	--	6,600
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	13,000	16,900	10,100	13,200
Utilities contributions subsequent to the measurement date	<u>19,100</u>	<u>--</u>	<u>14,800</u>	<u>--</u>
	<u>\$ 48,600</u>	<u>\$ 30,800</u>	<u>\$ 37,700</u>	<u>\$ 24,000</u>
	2020			
	Communication		Total All Utilities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 200	\$ 2,400	\$ 900	\$ 12,000
Changes of assumptions	7,200	--	35,800	--
Net difference between projected and actual earnings on IPERS investments	--	3,700	--	18,800
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	5,700	7,600	28,800	37,700
Utilities contributions subsequent to the measurement date	<u>8,400</u>	<u>--</u>	<u>42,300</u>	<u>--</u>
	<u>\$ 21,500</u>	<u>\$ 13,700</u>	<u>\$ 107,800</u>	<u>\$ 68,500</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

	2019			
	Electric		Water	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 900	\$ 3,400	\$ 700	\$ 2,700
Changes of assumptions	21,900	--	17,000	--
Net difference between projected and actual earnings on IPERS investments	--	4,200	--	3,300
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	9,200	12,600	7,100	9,800
Utilities contributions subsequent to the measurement date	<u>18,900</u>	<u>--</u>	<u>14,700</u>	<u>--</u>
	<u>\$ 50,900</u>	<u>\$ 20,200</u>	<u>\$ 39,500</u>	<u>\$ 15,800</u>
	2019			
	Communication		Total All Utilities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 300	\$ 1,600	\$ 1,900	\$ 7,700
Changes of assumptions	9,700	--	48,600	--
Net difference between projected and actual earnings on IPERS investments	--	1,800	--	9,300
Changes in proportion and differences between Utilities contributions and proportionate share of contributions	4,000	5,600	20,300	28,000
Utilities contributions subsequent to the measurement date	<u>8,400</u>	<u>--</u>	<u>42,000</u>	<u>--</u>
	<u>\$ 22,400</u>	<u>\$ 9,000</u>	<u>\$ 112,800</u>	<u>\$ 45,000</u>

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Deferred outflows of resources related to pensions of \$42,300 and \$42,000 represent the amount the Utilities contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending December 31, 2021 and 2020 respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>2020 Total</u>
2021	\$ 4,305	\$ 3,349	\$ 1,914	\$ 9,568
2022	( 2,187)	( 1,701)	( 972)	( 4,860)
2023	( 2,319)	( 1,804)	( 1,031)	( 5,154)
2024	( 1,638)	( 1,274)	( 728)	( 3,640)
2025	539	330	217	1,086
	<u>\$ ( 1,300)</u>	<u>\$ ( 1,100)</u>	<u>\$ ( 600)</u>	<u>\$ ( 3,000)</u>

  

<u>Year Ended December 31,</u>	<u>Electric</u>	<u>Water</u>	<u>Communication</u>	<u>2019 Total</u>
2020	\$ 9,954	\$ 7,742	\$ 4,424	\$ 22,120
2021	4,896	3,808	2,176	10,880
2022	( 1,177)	( 916)	( 523)	( 2,616)
2023	( 1,378)	( 1,072)	( 612)	( 3,062)
2024	( 495)	( 562)	( 465)	( 1,522)
	<u>\$ 11,800</u>	<u>\$ 9,000</u>	<u>\$ 5,000</u>	<u>\$ 25,800</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement as follows:

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increases (effective June 30, 2017)	3.25% to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Electric	\$ 267,200	\$ 150,500	\$ 52,600
Water	207,800	117,000	40,900
Communication	<u>118,800</u>	<u>66,900</u>	<u>23,300</u>

Utilities' proportionate share of the  
net pension liability - December 31,  
2020

\$ 593,800	\$ 334,400	\$ 116,800
------------	------------	------------

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Electric	\$ 260,200	\$ 153,300	\$ 63,700
Water	202,400	119,200	49,500
Communication	<u>115,700</u>	<u>68,300</u>	<u>28,300</u>

Utilities' proportionate share of the  
net pension liability - December 31,  
2019

\$ 578,300	\$ 340,800	\$ 141,500
------------	------------	------------

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS - At December 31, 2020 and 2019, the Utilities reported payables to IPERS of \$ - 0 - and \$ - 0 - respectively for legally required Utilities contributions and \$ - 0 - and \$ - 0 - for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE L - DEFERRED COMPENSATION PLAN

The Utilities offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457 through the ICMA Retirement Corporation's Deferred Compensation Plan. The Plan allows Utilities employees to defer a portion of their current salary until future years. The Utilities' accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Utilities' fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Utilities. The Utilities is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at December 31, 2020 was approximately \$148,000 (\$135,000 at December 31, 2019). This amount is not included in the financial statements since the Utilities does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. At December 31, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by the Utilities and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	9
	<hr/>
Total	9
	<hr/>

Net OPEB Obligation: Management of the Utilities consider any OPEB obligation, which may exist, to be immaterial. No liability has been recorded.



LENOX MUNICIPAL UTILITIES  
Notes to Financial Statements  
December 31, 2020 and 2019

NOTE N - COMMITMENTS AND CONTINGENCIES

Risk Management

The Utilities are exposed to common business risks of loss. These risks are covered to the extent practical by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Off Balance Sheet and Concentration of Credit Risk

Accounts receivable are due for electric, water, and communication charges to customers of Lenox, Iowa and the surrounding area. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

Construction

The Utilities have entered into a contract for designs for water system improvements to be completed during 2021 and 2022. As of December 31, 2020, the Utilities have incurred \$12,750 on this project. The project will be financed with existing funds and proceeds from an intra utility note from the Electric Fund.

Environmental Regulations

The Utilities are subject to various federal and state environmental regulations. These regulations are continuously revised and updated, resulting in ongoing compliance requirements. Management has determined that the facility is currently in compliance with the applicable regulations. The Utilities anticipate that any future cost incurred relating to environmental regulations will be recovered through rates charged to customers.

Subsequent Events

The Utilities has evaluated all subsequent events through February 18, 2021, the date the financial statements were available to be issued.

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

LENOX MUNICIPAL UTILITIES  
Budgetary Comparison Schedule  
Required Supplementary Information  
Year Ended December 31, 2020

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for debt payments and net position differently for financial statement and budget purposes.

	Per Financial Statements			Budget	Combined
	Electric	Water	Communication	Adjustments	Utilities
Revenues	\$ 1,805,778	\$ 983,351	\$ 683,841	\$ --	\$ 3,472,970
Expenses	<u>1,355,472</u>	<u>897,130</u>	<u>636,768</u>	<u>686,064</u>	<u>3,575,434</u>
Net	450,306	86,221	47,073	( 686,064)	( 102,464)
Balance beginning of year	<u>5,083,113</u>	<u>1,864,998</u>	<u>( 189,360)</u>	<u>( 4,378,628)</u>	<u>2,380,123</u>
Balance end of year	<u>\$ 5,533,419</u>	<u>\$ 1,951,219</u>	<u>\$( 142,287)</u>	<u>\$( 5,064,692)</u>	<u>\$ 2,277,659</u>

  

	Budget	Budget	Variance
	Basis	Budget	Favorable
			(Unfavorable)
Revenues	\$ 3,472,970	\$ 3,041,000	\$ 431,970
Expenses	<u>3,575,434</u>	<u>3,924,457</u>	<u>349,023</u>
Net	( 102,464)	( 883,457)	780,993
Balance beginning of year	<u>2,380,123</u>	<u>2,380,123</u>	<u>--</u>
Balance end of year	<u>\$ 2,277,659</u>	<u>\$ 1,496,666</u>	<u>\$ 780,993</u>

See Independent Auditor's Report.

LENOX MUNICIPAL UTILITIES  
Schedule of the Utilities' Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Six Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>
Utilities' proportion of the net pension liability	0.005775%	0.005384%
Utilities' proportionate share of the net pension liability	\$ 334,400	\$ 340,800
Utilities' covered payroll	\$ 445,000	\$ 426,200
Utilities' proportionate share of the net pension liability as a percentage of its covered payroll	75.15%	79.96%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%

In accordance with GASB Statement No. 68, the amounts presented for each year were determined as of the preceding year-end.

Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.005791%	0.005285%	0.005603%	0.005291%
\$ 385,800	\$ 332,600	\$ 276,800	\$ 214,000
\$ 416,800	\$ 419,700	\$ 384,000	\$ 383,000
92.56%	79.25%	72.08%	55.87%
82.21%	81.82%	85.19%	87.61%

LENOX MUNICIPAL UTILITIES  
Schedule of Utilities Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 42,300	\$ 42,000	\$ 39,200	\$ 37,200
Contributions in relation to the statutorily required contribution	<u>( 42,300)</u>	<u>( 42,000)</u>	<u>( 39,200)</u>	<u>( 37,200)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Utilities' covered payroll	\$ 447,900	\$ 445,000	\$ 426,200	\$ 416,800
Contributions as a percentage of covered payroll	9.44%	9.44%	9.19%	8.93%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 37,500	\$ 34,000	\$ 34,000	\$ 31,000	\$ 35,000	\$ 29,000
<u>( 37,500)</u>	<u>( 34,000)</u>	<u>( 34,000)</u>	<u>( 31,000)</u>	<u>( 35,000)</u>	<u>( 29,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 419,700	\$ 384,000	\$ 383,000	\$ 348,000	\$ 415,000	\$ 386,000
8.93%	8.93%	8.93%	8.76%	8.44%	7.50%

LENOX MUNICIPAL UTILITIES  
Notes to Required Supplementary Information - Pension Liability  
Year Ended December 31, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

\* \* \*

See accompanying independent auditor's report.



## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Lenox Municipal Utilities as of and for the years ended December 31, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated February 18, 2021.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lenox Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lenox Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Lenox Municipal Utilities' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 20-I-A.

To the Board of Trustees  
Lenox Municipal Utilities

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance or other matter which is described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Responses to Findings

Lenox Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Lenox Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gamerwall, Beas, Kuhn & Co. P.C.*

Atlantic, Iowa  
February 18, 2021

LENOX MUNICIPAL UTILITIES  
Schedule of Findings and Responses  
Year ended December 31, 2020

PART I - INTERNAL CONTROL DEFICIENCIES

20-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Utilities has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Utilities' ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Utilities to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Utilities to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

LENOX MUNICIPAL UTILITIES  
Schedule of Findings and Responses - Continued  
Year ended December 31, 2020

PART II - REQUIRED STATUTORY REPORTING

20-II-A Certified Budget: Disbursements during the year ended December 31, 2020 did not exceed amounts budgeted.

20-II-B Questionable Expenditures: During the audit, we noted no expenditures of the Utilities' funds without proper documentation of public purpose.

20-II-C Travel Expense: No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials and/or employees were noted.

20-II-D Business Transactions: Business transactions between the Utilities and Utilities officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Christensen Agency Tysen Christensen is a Board member and the spouse of the owner of the agency	Insurance	\$ <u>62,609</u>

The transactions with Christensen Agency equal or exceed \$2,500 (Code Section 362.5(3)(k)), however, purchases from local businesses are necessary for the operation of the Utilities in Lenox, Iowa. The Board considered and approved the purchase of insurance from this local business.

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

20-II-E Restricted Donor Activity: No transactions were noted between the Utilities, Utilities officials, Utilities employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

20-II-F Bond Coverage: Surety bond coverage of the Utilities' officials and employees appears to be in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

20-II-G Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

20-II-H Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy.

LENOX MUNICIPAL UTILITIES  
Schedule of Findings and Responses - Continued  
Year ended December 31, 2020

PART II - REQUIRED STATUTORY REPORTING - Continued

20-II-I Revenue Bonds and Notes: No violations of revenue bond or revenue note resolution requirements were noted.

20-II-J Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

20-II-K Financial Condition: The Communications Fund had a deficit balance of \$142,287 at December 31, 2020.

Recommendation: The Utility should investigate alternatives to eliminate this deficit and return the fund to a sound financial position.

Response: The Utility is continuing to make improvements to the fund's operations, which will bring the fund back to a positive financial position.

Conclusion: Response accepted.

\* \* \*